STANLEY

131st Annual Report 1973 The Stanley Works

The Year in Brief

	1973	1972
Net Sales (Including Amerock)	$491,323,926	$398,999,516
Net Earnings	$ 22,790,260	$ 19,944,473
Per Share	$ 2.95	$ 2.57
Cash Dividends Paid Per Share	$ 0.90	$ 0.80
Working Capital	$114,636,651	$ 99,531,660
Stockholders' Equity (Net Worth)	$175,919,670	$161,966,004
Per Share	$ 22.80	$ 20.91
Average Number of Shares Outstanding	7,715,341	7,746,158
Average Number of Employees	18,207	15,705

131st Annual Report To Our Stockholders

Cover

A scene from one of several new Stanley television commercials reflecting the satisfaction of people working together. It shows a young couple finishing a cradle for the nursery. The other commercials also feature people using Stanley tools, hardware and draperyware. It is important for Stanley to show its leadership not only in manufacturing and selling household, do-it-yourself products, but also in providing information on how to do jobs around the home and do them right.

Annual Meeting

The Annual Meeting of Stockholders will be held at 9:30 a.m. on Wednesday, April 24, 1974 in New Britain, Conn., in the Stanley Center, located at 1255 Corbin Avenue between West Main and Myrtle Streets.

Transfer Agent and Registrar

The Connecticut Bank and Trust Company, Hartford, Conn.

The year 1973 was a year of new records for Stanley. All time high earnings per share of $2.95 were 15% above 1972, maintaining the 15% compound annual growth rate for the period since 1962.

Sales for 1973 of $491,324,000 were up 23% over '72. This increase was rather evenly distributed both geographically and in terms of product groups. Product group sales increased as follows: tools 24%, household products 19%, builders products 37%, and industrial products 22%.

The total sales and earnings include those of Amerock. As explained in the financial section, the results of Amerock are identified separately in the financial statements. This has been done because Stanley must, by Federal Trade Commission order, divest Amerock no later than June 4, 1975, and our control of Amerock is, therefore, considered temporary.

The method of divestiture has not as yet been determined. Stanley's management and Directors are giving top priority to working out a method of divestiture that will give full value to Stanley stockholders for this fine quality company.

The Board of Directors, sharing management's confidence in the growing demand for Stanley products around the world, and recognizing consistently improving earnings, increased the quarterly dividend in the third quarter to $0.24 per share. Dividends paid for the year amounted to $0.90 per share, an increase of over 12% from last year. This is the sixth consecutive year of dividend increases. Since 1964 stockholders have received an increase every year but one.

The following small acquisitions were made in 1973: certain assets of Armbro Materials and Construction Ltd. of Canada—producer of prestressed concrete products — in February; Antichoc, S.A. located in Saint-Louis, France — manufacturer of levels — in March; William Mills, Ltd. of Sheffield, England — producer of garden tools — in November; and the Pennsylvania Saw Corporation, York, Pennsylvania, in October.

Donald W. Davis at New Laboratory

We spent over $29,000,000 for plant and equipment in 1973, much of which was to provide capacity increases. In 1974 we are planning expenditures of about $39,000,000, of which about $9,000,000 will be utilized by our overseas operations. Again the 1974 spending plans are slanted heavily toward providing increased capacity to meet the ever-growing demand for our products.

In November, Mr. C. Kenneth Freedell, member of the Board of Directors and its Executive Committee since 1966, and former Executive Vice President of the Company, retired from the Board after 50 years of distinguished service as an employee and Director. His replacement on the Board, also elected in November, is Gerald A. Lamb, Senior Vice President of The Connecticut Bank and Trust Company, Hartford, Connecticut.

Officers of The Stanley Works, elected during the year, were Thomas T. Gately, Vice President; Vaughn E. West, Vice President — Administration and Planning; and Lloyd Wallis, Jr., Controller.

Because of energy and material shortages and the resulting rapidly rising costs, 1974 is a difficult year for predictions. The demand for our products continues strong. In fact, year-to-date incoming business is up 16% over 1973.

In spite of this strong demand, we expect that shortages and related rising costs will put pressure on profit margins during the first half of the year. Along with most economists, we expect an improvement in economic conditions in the second half of the year.

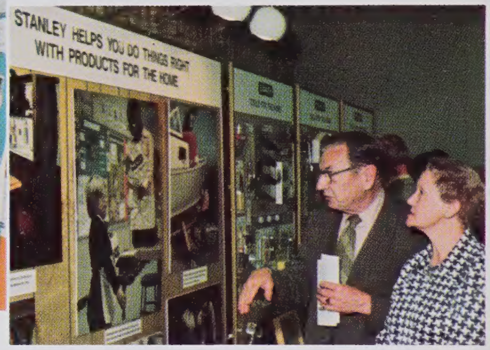
The same fine organization of creative and enthusiastic people that has made possible our growth in size, strength and earnings over recent years will be applying its ingenuity to making 1974 another year of growth for Stanley.

Donald W. Davis

President

New Britain, Connecticut
March 23, 1974

Stockholders' Questions Answered by Donald W. Davis



What were the most important factors in Stanley's growth in sales and earnings in 1973 over 1972?

Over a long period of time, Stanley's growth has been based on manufacturing products of quality and value. It seems that once we get people to try our products, they usually come back for more. Perhaps the most important external factor in 1973 was the continuing growth of the do-it-yourself market for tools and household products. Our products fit naturally into this trend. Another important factor was the introduction of Stanley products into new markets around the world.

What has Stanley's growth rate been over a longer period of time?

For the last decade our earnings per share have grown at a compound average rate of 15% per year.

Could you discuss the energy crisis as it relates to your own operations?

Fortunately, in most areas where we operate, the winter has been relatively mild, reducing heating requirements. Many conservation measures have been taken such as lowering factory and office temperatures, recovery of "heat waste" in some operations, and elimination of unnecessary lighting. Other than in the United Kingdom, we have not had to curtail operations because of energy shortages and we don't expect to.

Will the strengthening of the dollar in international markets have much effect on Stanley in 1974?

Demand for our products worldwide is not likely to be affected by modest increases in the value of the dollar. The major markets served by U.S. exports are staying in line with the U.S. dollars. Decreases in major currencies, such as Sterling, could improve our competitiveness in certain export markets.

Will the dramatic current slowdown in new housing have much impact on Stanley?

We expect the negative effect of this slowdown will be offset to a large extent by the likely increased market opportunities resulting from a reduction in the volume of residential product imports coming into the U.S. and Canada. Also, the home improvement market usually picks up during periods of low new construction as the do-it-yourselfers take on more home projects. Less travel should also stimulate this market, leaving more time for energy saving projects around the home such as installing storm doors and windows and insulation plus other repair projects.

Accounts receivable and inventories increased significantly in 1973. What caused these increases?

These increases relate directly to the continuing sales growth of the Company. Accounts receivable increased by about the same rate as sales in 1973. Inventories increased at a higher rate in 1973 as we attempted to improve service levels while coping with materials shortages. Over the past two years, inventories, like accounts receivable, have increased proportionately to sales.

Would you classify The Stanley Works as a consumer product company?

Yes I would. Even though about 40% of our products go to builders and industry, the major thrust of our growth is in our consumer lines of household and tool products.

What will your capital expenditures be in 1974, and what are some of the major projects?

Total expenditures will reach an all-time high of nearly 39 million dollars. About 9 million of this will be overseas, and 30 million in the U.S. and Canada. Major projects will include several new manufacturing facilities for a number of tool product lines, expansion and refinement of our steel manufacturing capabilities, and a new corporate distribution facility in the Northeast. In addition, we will be completing a new warehouse and manufacturing facility for our hand tool operation in Sheffield, England, and a new drapery hardware plant south of Rome, Italy.

How will the divestiture of Amerock affect Stanley stockholders?

Amerock is a fine company which has substantially increased in value since our merger in 1966. We are convinced that the ultimate form of divestiture, as decided by the Board of Directors and approved by the Federal Trade Commission, will preserve this value and it will accrue in one form or another to the benefit of Stanley stockholders.

How is inflation affecting your profit margins and operations in general?

Since we have received some relief through increased selling prices, to date there has been no general unfavorable effect.

As with most businesses, our costs are increasing, in some cases, dramatically. However, in the event of a continuation of the Phase IV Price Control Regulations, which permit a manufacturer to increase selling prices only in the same dollar amount as the cost increase after certain deductions, this will in time obviously cause a percentage decrease in profit margins. We are very hopeful that price controls on our products will be eliminated by April 30, this year.

Are you anticipating any long term financing in 1974?

We do not plan any long term financing in 1974. However, we might consider it should interest rates come down considerably. In December of 1973 we converted $20 million of short term bank borrowings to medium term bank borrowings. Depending on our situation later in the year, we might again increase these medium term bank borrowings.

What is behind Stanley's decision to embark on rather extensive TV advertising of its consumer products?

We're convinced that the timing is right for Stanley to position itself as a leader not only in manufacturing and selling household, do-it-yourself products, but also in providing information on how to do jobs around the home and do them right! Population projections for the next 7 to 10 years indicate we will have record numbers of new homes and families being established in this country. Stanley plans to grow right along with these household and family formations.

There has been considerable comment in the news media about "inventory profits" resulting from a period of high inflation such as 1973. Could you tell us the effects of this on Stanley?

Since the majority of our domestic inventories are on a LIFO inventory valuing basis (last in, first out), our reported earnings do not include any significant amount of profits resulting from inventory write-ups. If inventory had been valued on the FIFO (first in-first out) basis, reported earnings per share would have been 22¢ higher.

What about the predictions of economists that 1974 is going to have both recession and inflation problems?

These factors should have less effect on Stanley than on many companies. This is partly because of our diversification both geographically and in products. Even more important, our consumer products, because of their modest price level and utilitarian nature, tend to be somewhat recession-proof and inflation-proof.

Progress Report

TOOLS

Continuing growth in do-it-yourself activity as well as interest in crafts and hobbies were major factors in Stanley's record tool sales in 1973. Sales of tools were 24% higher than in 1972. Sales and incoming orders were continuing at that rate at the end of the year.

The consistently strong demand for Stanley tools created a need for additional manufacturing capacity. A 163,000 sq. ft. plant was completed in Cheraw, South Carolina during the year and construction began on another 126,000 sq. ft. plant in Shelbyville, Tennessee. Plants in Shaftsbury, Vermont; Newark, New Jersey; and Plantsville, Connecticut were enlarged to provide greater manufacturing capacity. In England, Stanley Tools Ltd. started construction of a 150,000 sq. ft. manufacturing-warehouse facility and Ferramentas Stanley S.A. enlarged its plant in Sao Paulo, Brazil.

Stainless steel garden tools manufactured by Stanley Tools Ltd. in England and a line of levels manufactured by Stanley-Antichoc, S.A. in France were two 1973 additions to Stanley's international line of tools.

The growing interest in home arts and crafts is a significant factor in the increased sales of Stanley tools. Here, a Surform® shaver tool is used to correct a blemish in a wood sculpture originally shaped with Surform tools.

Boating has created additional demand for Stanley hand and electric tools used for boat building and maintenance.

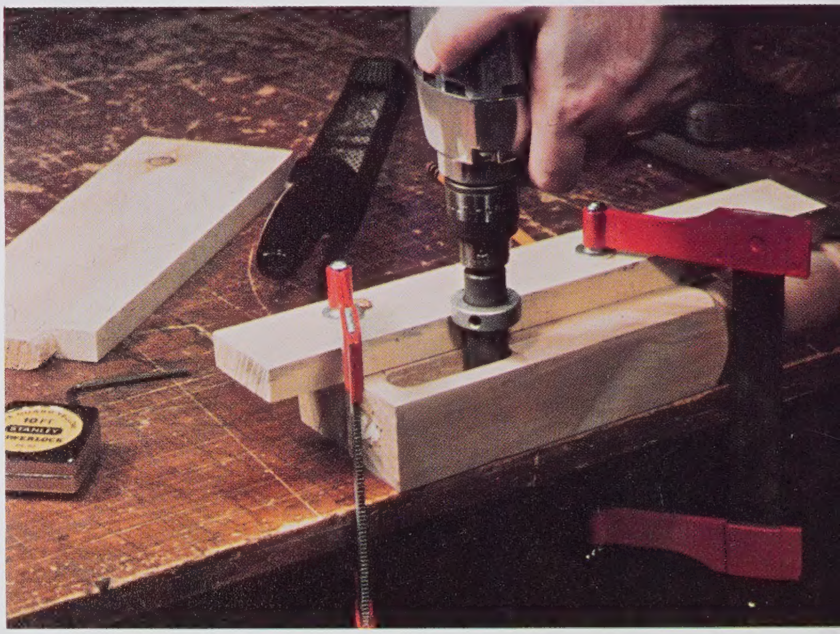
More than 250 plans for woodworking projects such as this rocking lion, 13 how-to books and over 100 instructional films help introduce Stanley tools to hobbyists and schools.

The annual Stanley Scholarship Contest encourages young people to create, design and complete original woodworking projects such as this knotty pine hutch entered last year in the eighth contest.
Albert F. Clear (center), executive vice president of The Stanley Works, extends congratulations to the winning pupil and his instructor. Prizes are given to 10 winners in each of two divisions.

This underwater impact wrench is one of Stanley's line of portable hydraulic tools which has a largely untapped potential in construction, utility, agricultural and industrial markets.

TOOLS

The Stanley Electrichisel™ is an attachment for an electric drill that enables even a novice to make such cuts as the dado for shelves and stereo cabinets, mortise and tenon joints for chairs and tables, and rabbet joints used in making desks and picture frames.



This Stanley air powered nut-setter provides on-the-spot quality control by means of a small window in its side which shows the torque applied to each nut the tool tightens.

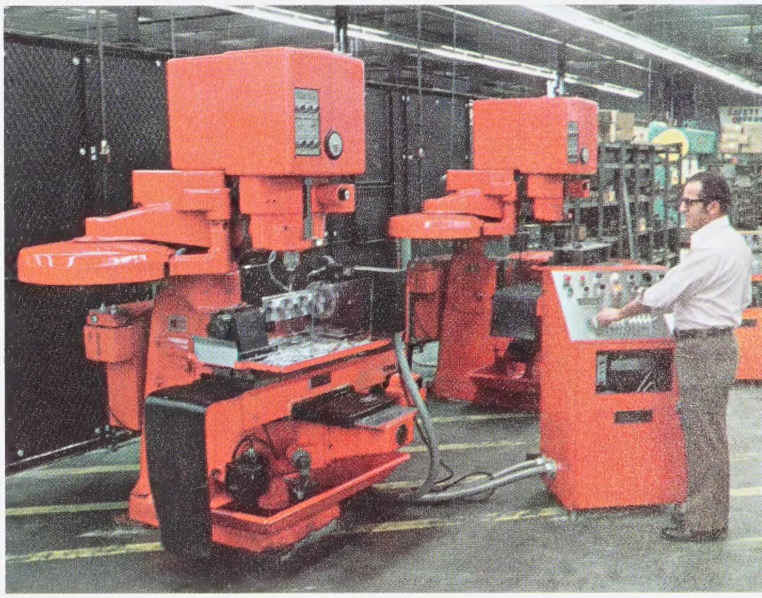
BUILDERS PRODUCTS

Though the pace of new building construction slackened somewhat in 1973, the demand for Stanley products remained strong. A number of new products were introduced in addition to those shown here. A fire resistant Sta-Tru™ door meets fire code specifications for high rise and commercial buildings. Another Sta-Tru door is designed for residential remodeling rather than new construction. The "Sta-Lite 500" garage door is the first steel sectional garage door designed for easy handling in retail home centers. An electro-hydraulic automatic door operator is designed for swinging doors in commercial buildings. A hinge with a completely concealed spring that automatically closes standard doors is a low-cost means of meeting fire codes for doors from rooms to corridors in hotels, nursing homes and apartments.

The Door Systems Division opened a warehouse and customizing plant in Atlanta. In Canada, the Door Systems plant was enlarged and Stanley-Bumeda increased its capacity for manufacturing metal doors and frames.

Two 68-ft. wide Stanley air curtains, probably the world's largest, were installed in a San Francisco office building.

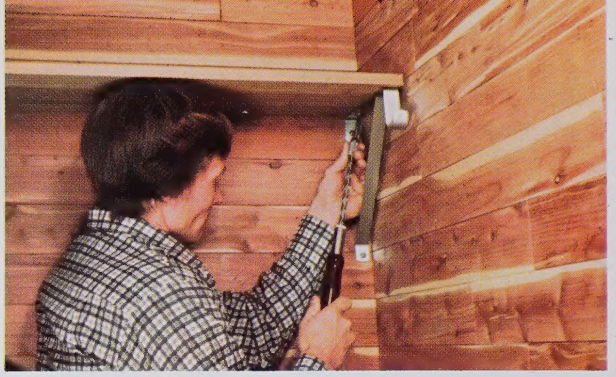
New 7¼-inch (above) and 6½-inch circular saws deliver more power per pound than any other circular saws in their class. Such innovations strengthen Stanley's position in the construction and industrial markets.



These new tape-controlled machines automatically perform multiple precision machining operations on parts for Stanley automatic doors, including the new all-electric Magic-Slide™ door developed in 1973.

Stanley air curtains have proved their capability to keep wind and dust outside and conditioned air inside buildings and create convenient, safe, low-cost entranceways for buildings such as this supermarket.

These Stanley combination brackets support both closet shelf and pole, making installation easier. Stanley's sophisticated adjustable steel closet bars feature snap-in nylon hanger glides.



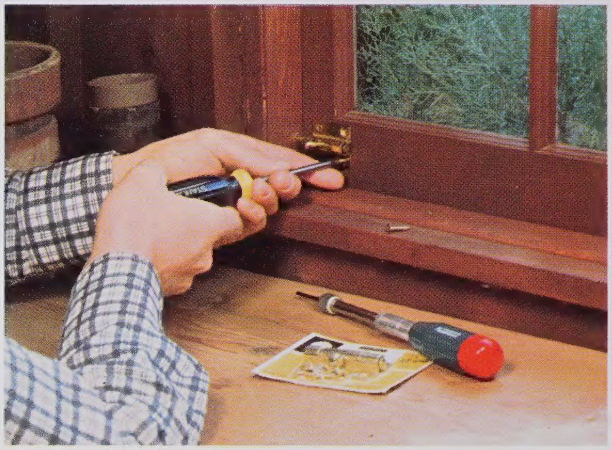
HOUSEHOLD PRODUCTS

The same do-it-yourself surge that boosted demand for tools had a similar impact on Stanley household products in 1973.

The increase in hardware sales was helped with the addition of 57 new hooks and bolts and similar "bright wire" products. Development was completed late in the year of a new line of solid brass "fix-it" hardware and a line of new 1½-inch decorative drapery rods with a bright brass finish. Both lines will debut in 1974.

Increased manufacturing capacity was also needed for household products.

In addition to the new plant in Italy, shown on the opposite page, 18,000 sq. ft. of space were added to the New Britain plant for the manufacture of roll-formed sliding door track.



Household hardware like this barrel bolt helps make windows and doors secure.

Patio door lock is one of the key-lock items in the Guardware® security hardware line of twenty — effective answers to the increasing need for greater household protection.

Some 50,000 of these modular merchandising systems for hardware were sold to chain stores, home centers and other retailers in 1973. Similar Stanley merchandisers are used in stores to make tool selection easier.

A new drapery hardware plant in Italy will supplement the output of present facilities in Figino to help meet world-wide demand. The 55,000 sq. ft. plant, to be completed by mid-1974, is located at Supino, about 50 miles south of Rome.

A do-it-yourself garage door opener package helped increase door systems sales significantly in 1973.

The Flaire® line of shelving continued as a major do-it-yourself product, providing attractive, easily installed shelving for any room in the home.

The dramatic sweep and beauty of sheer curtain draperies are enhanced by "Reeded Romantics," one of the newest lines of Stanley decorator traverse rods with exclusive self-locating rings on master carriers.

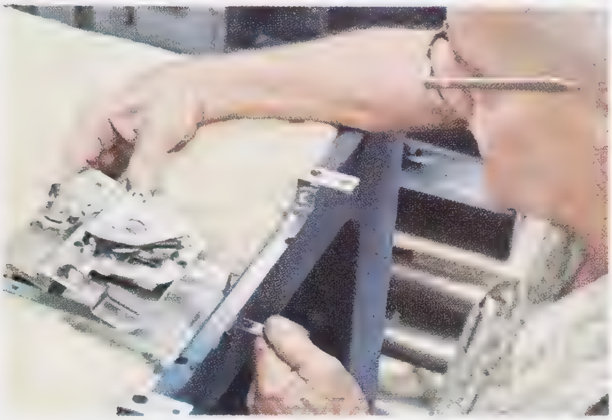
INDUSTRIAL PRODUCTS

The industrial divisions had significantly improved results in 1973. Demand for Stanley cold-rolled strip steel continued to be very strong, necessitating expansion of Steel Division facilities in New Britain (photo at right) and the installation of automatic gauge control equipment on the Company's rolling mill in Hamilton, Ontario.

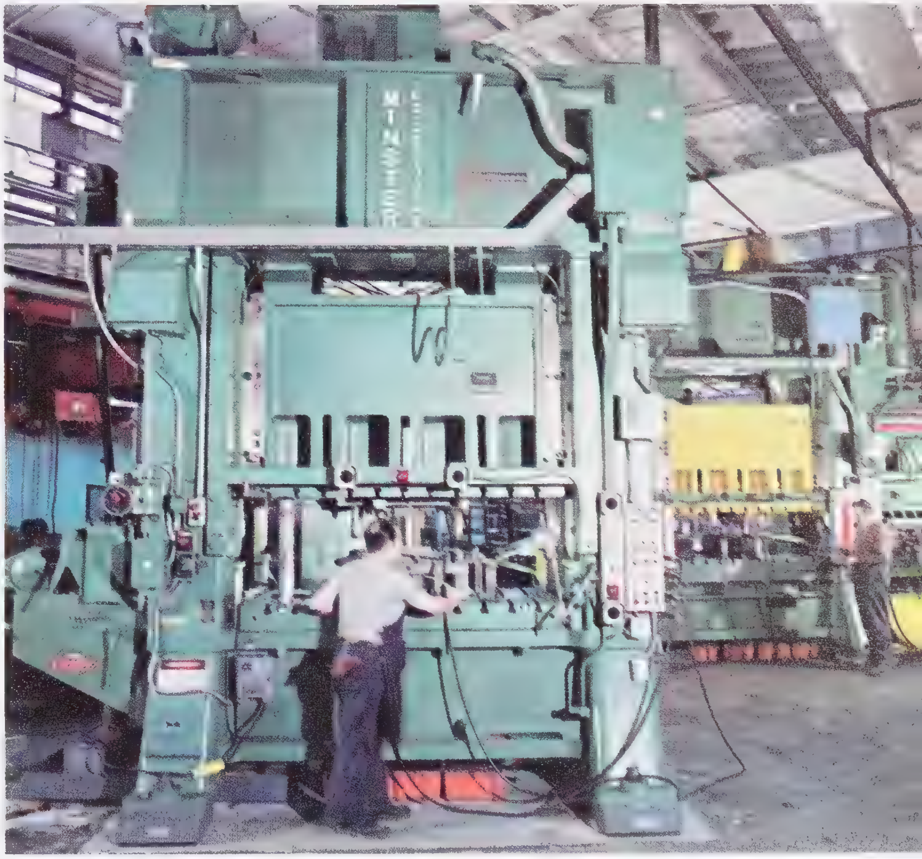
Demand continued to increase for the stampings and sub-assemblies produced by our other industrial divisions and broadened the array of products made for other manufacturers. Stanley parts and assemblies go into products as diverse as toys, appliances, automobiles, vacuum cleaners, television picture tubes, flashlights, kitchen utensils, aircraft, food blenders, razors, aerosol sprays, cameras, eyeglasses, computers, office machines and telephone switchboards.

New 20-ton crane swings equipment into place for the Steel division's new slitting line. It slits 40,000 lb. steel coils for the production of Stanley's specialized cold-rolled strip steel.

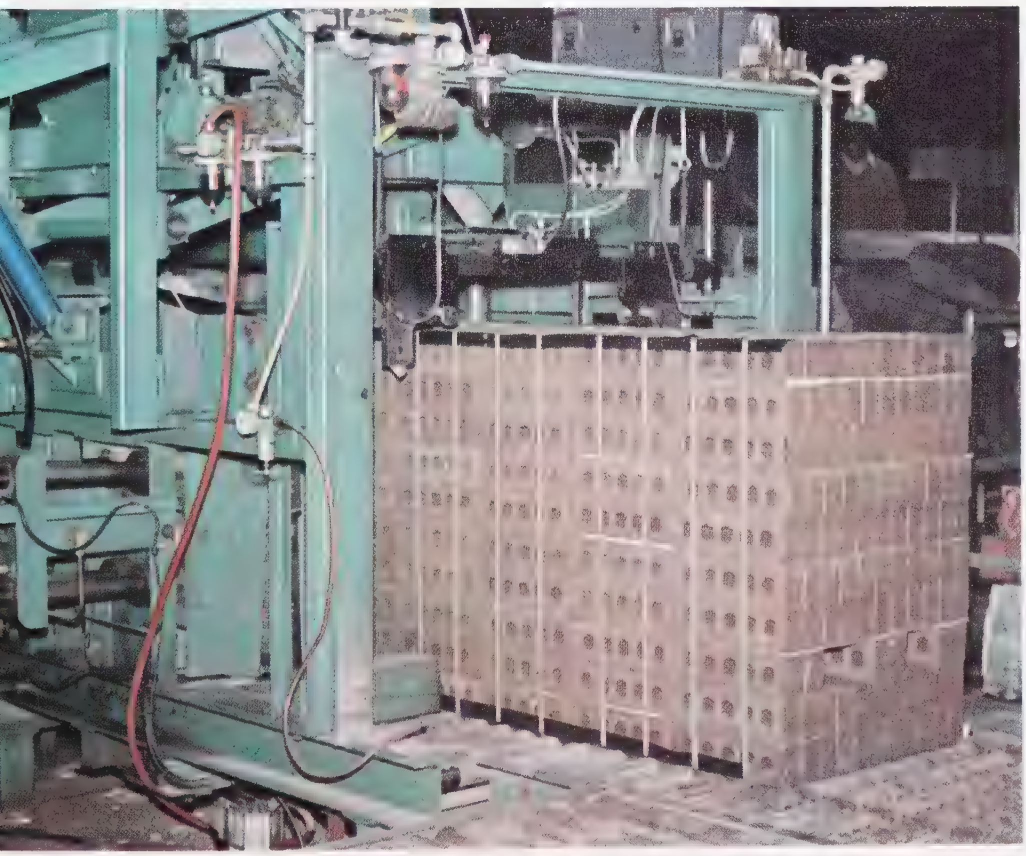
Vidmar® storage and retrieval systems for tools and parts save space and time and reduce theft and loss in locations as varied as aircraft carriers, surgeries, schools, industrial plants.



Patented Stanley latch made for appliance manufacturers locks self-cleaning ovens during cleaning cycle and cannot be opened until oven cools to safe temperature. Compact latch is quickly installed, saves manufacturers the time and cost of latch design and assembly.



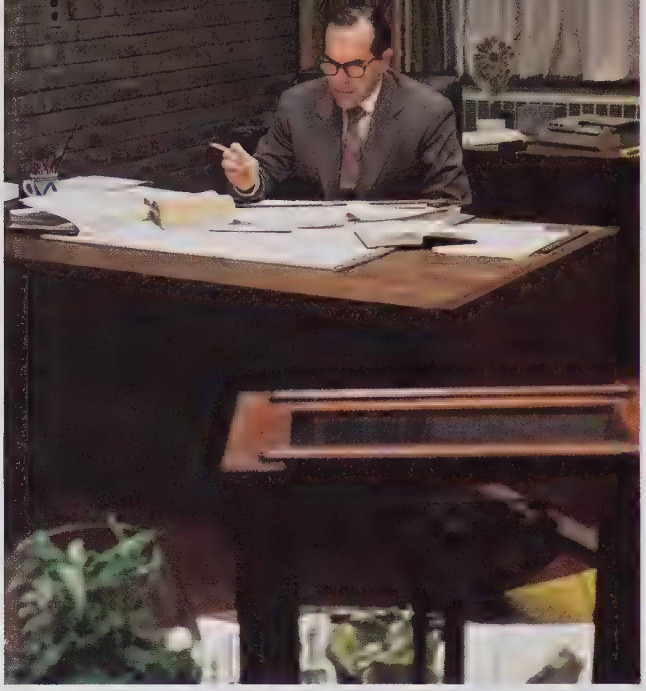
New presses, here being readied for trial runs, helped Industrial Hardware Division contribute to record sales and profits of industrial divisions in 1973.



Special coating developed for Stanley steel strapping is highly resistant to corrosion. Here it is used to package bricks. The coatings are formulated to eliminate pollutants and to provide a clean air exhaust from the ovens where coatings are baked.

NEW STANLEY LABORATORY

The scope of a modern industrial laboratory has changed to reflect today's demands by industry and by the people who buy its products. Simply testing finished products for strength and/or reliability is not enough today . . . the testing is perhaps more importantly performed on the raw materials and processes used to manufacture the product. These are some of the functions of the new laboratory which was officially opened January 10, 1974. Its role is to lend advanced technological support to the divisions of the Company, corporate management and Stanley's customers.



Donald C. Young, Director of The Stanley Works' corporate laboratory and technical research facility.

In demonstration at official laboratory opening, chemist points out advantages of non-polluting finish applied to carpenters' squares to state, community and Stanley officials.

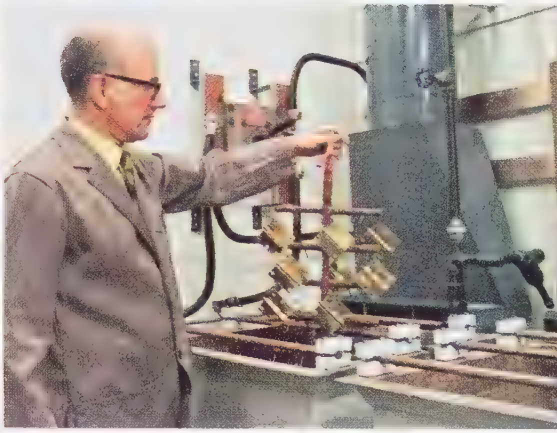
High speed photography investigates Stanley 2-Speed Sabre Saw performance with 8,000 picture-per-second space age camera.

A Stanley drapery rod is measured for the thickness of its protective coating with an instrument utilizing the principle of magnetism.

Test spraying aluminum levels. Organic Engineering develops equipment and organic materials to produce attractive quality products.

Inorganic Chemistry develops analytical procedures, cleaning processes, surface chemistry, corrosion prevention, water pollution control.

Tensile testing destroys products to make them better. Metallurgical Section fabricates, heat treats, and joins metals of all types.

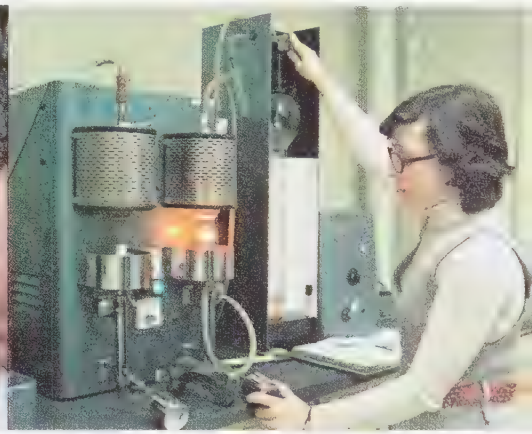


Research plating for Stanley hinges. Electrochemical Section works on mass finishing techniques, specifications and start up of new facilities.

Wood testing in Organic Engineering. Moisture content of wood is an important factor in the stability of Stanley wood products.

Instrumental Analysis analyzes steel, alloys, other materials. Here read-out of gas chromatograph separates components of paint thinner.

Examining the micro-structure of steel through a highly specialized metallurgical microscope. Microscope magnifies up to 700 times.



Carbon analyzer measures carbon in a sample of steel used to manufacture steel strapping from Stanley cold rolled steel strip.

Testing finishes to destruction. Weather-Ometer® duplicates high intensity sunshine, simulates rain, tests world-wide weatherability of tools, hinges.

Mechanical Engineering provides "total systems" for production — here a conveyor system for cold chisels.

Plastics Engineering chief examines pilot-molded Mini-File "Surform"® tool. Technician pours resin into injection molding machine.

Financial Review

RESTATEMENT OF FINANCIAL STATEMENTS Because the F.T.C. order requiring Stanley to divest Amerock by June 1975 is now final, our control of Amerock is considered temporary. As a result, the accounts and operations of Amerock have been identified separately in the financial statements for the year 1973. The Amerock Balance Sheet accounts have been isolated into five categories in the Consolidated Balance Sheet and Amerock net earnings are shown separately in the accompanying Statement of Consolidated Earnings. In order to provide comparability, the statements for the year 1972 have been restated accordingly.

EARNINGS Consolidated net earnings for 1973 reached a new high of $22,790,000, an increase of $2,846,000 over the $19,944,000 earned in 1972. These earnings represent $2.95 per share in 1973, compared to $2.57 in 1972.

Net income, by quarters, compared to 1972, was as follows:

	(in thousands)	
Quarter	**1973**	**1972**
First	$5,332	$4,344
Second	6,156	4,999
Third	5,538	4,631
Fourth	5,764	5,970

The investment tax credit contributed $0.10 per share to both 1973 and 1972 earnings.

SALES Sales for 1973 totaled $491,324,000 including Amerock's sales of $57,481,000. This represents an increase of $92,324,000 or 23% over the $399,000,000 recorded in 1972. The increases are given in the President's Letter by product groups.

Our international subsidiaries' sales equaled 30% of consolidated 1973 sales. Including exports from our domestic operations, total international sales amounted to 32% of 1973 sales.

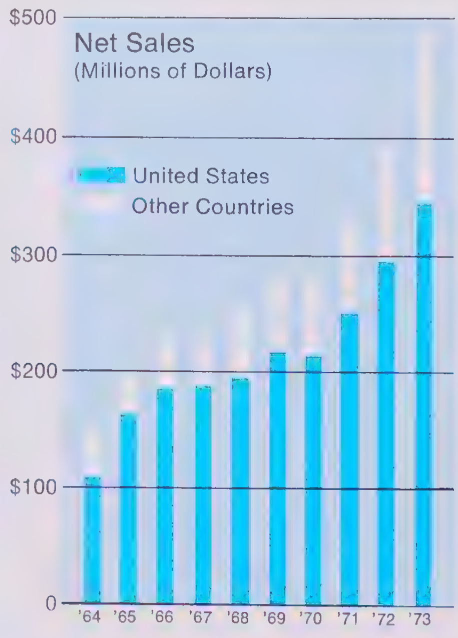
PRODUCT GROUP SALES AND EARNINGS The sales and earnings contributions by product groups for 1973 and 1972 were as follows:

	1973		1972	
	Sales	**Earnings**	**Sales**	**Earnings**
Tools	34%	46%	34%	45%
Household Products	12%	12%	12%	13%
Builders Products	23%	14%	20%	14%
Industrial Products	20%	13%	20%	7%
Amerock	11%	15%	14%	21%

ACQUISITIONS Four acquisitions were completed in 1973.

In February we acquired certain of the assets of Armbro Materials and Construction Ltd., a Canadian producer of prestressed concrete. A French manufacturer of levels,

In 1968 the Company had a 4½-month strike.



Antichoc, S.A., was acquired in March. In November, William Mills Ltd., an English manufacturer of garden tools, was acquired, and in October we acquired the Pennsylvania Saw Corporation in York, Pennsylvania.

All four of these acquisitions were made for cash totaling $8,020,000. The results of their operations since the dates of acquisition are included in our consolidated results.

In addition to these acquisitions, in September we acquired for cash, the remaining minority interests in Stanley-Mabo, a French manufacturer of linear measuring instruments. We had purchased a majority interest in this company in 1970.

PLANT AND EQUIPMENT Plant and equipment expenditures totaled a record $29,-257,000 in 1973. $22,760,000 of this was invested in our U.S. operations and $6,497,000 was expended by our International subsidiaries. Total depreciation for the year was $13,567,000.

Expenditures for 1974 are budgeted at $38,737,000. Depreciation for 1974 is estimated to be $15,550,000. The majority of the planned investments are to provide increased capacity.

TAXES $38,229,000 for taxes was paid or accrued in 1973 compared to $30,155,000 in 1972. Of this amount, $21,230,000 was for income taxes.

FINANCIAL POSITION Working capital increased $15,105,000 in 1973 to $114,637,000, compared to $99,532,000 at the end of 1972 as receivables and inventories rose in proportion to the substantial increase in the level of business. The ratio of current assets to current liabilities at the end of 1973 was 2.2.

Stockholders' equity (net worth) was $175,-920,000 at the end of 1973, equal to $22.80 per share. This compares to $161,966,000 or $20.91 per share at the end of 1972.

Long term debt increased by $18,334,000 during the year to $61,326,000 at year end, primarily as the result of a $20,000,000 seven-year revolving credit and term loan facility which was arranged with three of the Company's principal banks. Arrangements were also made to partially finance our new plants in South Carolina and Tennessee through the issuance of $2,000,000 in industrial revenue bonds.

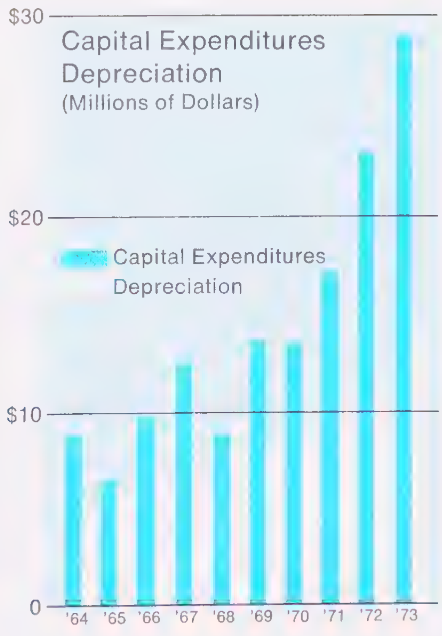
DIVIDENDS Dividends were paid at the rate of $0.21 per share in each of the first two quarters, and at $0.24 in the third and fourth quarters.

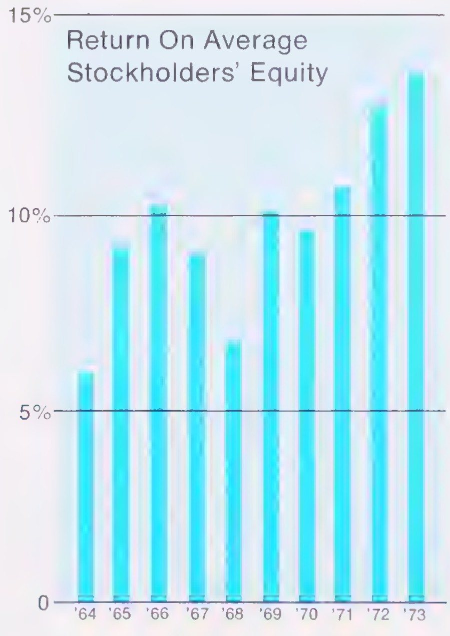
Total cash paid in dividends in 1973 was $6,940,000. This equaled $0.90 per share compared to $0.80 per share paid in 1972.

PENSION PLANS Contributions to our various pension plans totaled $7,310,000 in 1973 compared to $5,661,000 in 1972. Of the 1973 contribution, $4,633,000 represented the current service portion and $2,677,000 was applied to amortization of past service liability.

Payment made to or for the benefit of retired employees amounted to $3,829,000.

At year's end, the pension funds totaled approximately $43,157,000, with an estimated past service liability remaining to be funded of $39,104,000.





Ten Year Review

The Stanley Works and Subsidiary Companies

	1973
Operations *(Thousands of Dollars)*	
Sales	$491,324
Earnings before Income Taxes, Equity Interest in Earnings of Amerock Corporation and Extraordinary Items	37,200
Income Taxes	17,831
Earnings before Equity Interest in Earnings of Amerock Corporation and Extraordinary Items	19,369
Equity Interest in Earnings of Amerock Corporation, net of income taxes	3,421
Earnings before Extraordinary Items	22,790
Extraordinary Items, net of income taxes	
Net Earnings	22,790
Cash Dividends	6,940
Capital Expenditures	29,257
Depreciation and Amortization	14,550
Financial *(Thousands of Dollars)*	
Working Capital	114,637
Net Property, Plant, and Equipment	120,974
Long-Term Debt	61,326
Stockholders' Equity (Net Worth)	175,920
Per Share Data	
Earnings before Equity Interest in Earnings of Amerock Corporation and Extraordinary Items	2.51
Equity Interest in Earnings of Amerock Corporation	.44
Earnings before Extraordinary Items	2.95
Extraordinary Items	
Net Earnings	2.95
Cash Dividends	.90
Book Value	22.80
Ratios and General	
Earnings before Extraordinary Items	
as % of Sales	4.6
as % of Average Stockholders' Equity	13.5
Current Ratio	2.2
Average Number of Shares Outstanding (In Thousands)	7,715
Average Number of Employees	18,207
Number of Stockholders	16,728

1965 through 1973 include operations of Amerock Corporation on a fully consolidated basis.
In 1968 the Company had a 4½-month strike.

1972	1971	1970	1969	1968	1967	1966	1965	1964
$399,000	$330,082	$278,777	$280,628	$247,485	$230,930	$230,642	$198,267	$142,366
30,183	22,542	19,635	20,494	12,205	15,468	17,531	12,449	9,008
14,355	10,793	9,249	10,014	6,196	7,327	8,639	5,747	4,420
15,828	11,749	10,386	10,480	6,009	8,141	8,892	6,702	4,588
4,116	4,129	2,494	2,452	2,366	2,505	2,242	2,724	
19,944	15,878	12,880	12,932	8,375	10,646	11,134	9,426	4,588
							287	2,522
19,944	15,878	12,880	12,932	8,375	10,646	11,134	9,713	7,110
6,163	5,803	5,137	4,981	4,617	4,252	3,687	2,849	2,598
22,678	17,221	13,477	13,490	8,893	12,761	9,969	6,633	8,806
11,866	10,370	8,886	8,876	8,944	8,313	7,636	6,398	4,775
99,532	83,972	78,728	71,854	67,529	64,260	65,591	61,600	35,088
101,948	87,203	82,331	76,226	72,836	69,005	63,986	54,969	46,207
42,992	28,568	29,561	23,225	22,864	24,732	27,438	20,650	10,650
161,966	148,089	138,684	130,706	123,944	117,774	111,077	103,795	77,069
2.04	1.53	1.42	1.43	.82	1.12	1.22	.93	.86
.53	.53	.34	.34	.33	.34	.31	.37	
2.57	2.06	1.76	1.77	1.15	1.46	1.53	1.30	.86
							.04	.47
2.57	2.06	1.76	1.77	1.15	1.46	1.53	1.34	1.33
.80	.78	.70	.68	.63	.58	.58	.53	.49
20.91	19.24	19.00	17.84	16.96	16.14	15.27	14.34	14.40
5.0	4.8	4.6	4.6	3.4	4.6	4.8	4.8	3.2
12.9	11.1	9.6	10.2	6.9	9.3	10.4	9.4	6.1
2.5	2.4	2.8	2.8	2.7	3.0	3.0	3.1	2.8
7,746	7,698	7,299	7,325	7,308	7,295	7,275	7,236	5,351
15,705	14,991	14,105	14,304	13,838	13,649	13,755	12,807	9,812
16,508	15,851	15,804	16,317	17,124	17,898	18,773	18,200	17,845

Consolidated Balance Sheets

The Stanley Works and Subsidiary Companies

December 30, 1973 and December 31, 1972

ASSETS	1973	1972 (Note A)
Current Assets		
Cash	$ 8,137,096	$ 7,620,229
Short-term investments — at cost (approximate market)	3,485,935	3,600,741
Trade accounts receivable, less allowance for doubtful accounts of $1,582,357 in 1973 and $1,387,278 in 1972	84,335,903	66,326,596
Inventories (Note D)	82,635,157	62,939,005
Prepaid expenses	1,983,137	1,927,131
Current assets of Amerock Corporation (Note A)	25,956,449	22,908,658
TOTAL CURRENT ASSETS	206,533,677	165,322,360
Investments and Other Assets		
Investments in and advances to 50% owned companies	3,606,948	3,049,016
Other	2,377,435	2,288,508
Other assets of Amerock Corporation (Note A)	84,615	79,990
	6,068,998	5,417,514
Property, Plant, and Equipment		
Land	5,257,509	4,182,225
Buildings	57,553,495	51,734,424
Machinery and equipment	135,674,387	115,501,329
	198,485,391	171,417,978
Less allowances for depreciation	93,288,453	84,105,633
	105,196,938	87,312,345
Property, plant and equipment of Amerock Corporation, less allowance for depreciation of $14,323,910 in 1973 and $12,759,470 in 1972 (Note A)	15,776,783	14,635,922
	120,973,721	101,948,267
Goodwill, less amortization of $1,760,144 in 1973 and $1,256,740 in 1972	7,537,156	6,903,221
	$341,113,552	$279,591,362

LIABILITIES AND STOCKHOLDERS' EQUITY

	1973	1972 (Note A)
Current Liabilities		
Notes payable to banks	$ 17,478,175	$ 7,101,883
Accounts payable	31,893,489	26,016,766
Accrued wages and expenses	14,130,150	11,296,074
Amounts due to trustees of pension funds	5,428,576	3,702,841
United States and foreign income taxes	6,252,211	5,138,551
Current maturities of long-term debt	6,209,723	2,742,648
Amount due to Amerock Corporation	—	1,814,989
Current liabilities of Amerock Corporation (Note A)	10,504,702	7,976,948
TOTAL CURRENT LIABILITIES	91,897,026	65,790,700
Long-Term Debt (Note E)	61,326,233	42,992,167
Deferred Credits		
Income taxes	7,719,048	6,205,122
Deferred gain on foreign exchange (Note C)	2,609,149	600,792
Deferred credits of Amerock Corporation (Note A)	1,072,480	827,780
	11,400,677	7,633,694
Minority Interests in Subsidiaries	569,946	1,208,797
Stockholders' Equity (Notes E, F and G)		
Preferred Stock, without par value: Authorized and unissued 1,000,000 shares		
Common Stock, par value $5 per share: Authorized 14,000,000 shares; issued 7,968,857 shares	39,844,285	39,844,285
Capital in excess of par value	11,038,717	10,958,585
Retained earnings	133,023,533	117,173,012
	183,906,535	167,975,882
Less cost of Common Stock in treasury (272,447 shares in 1973 and 227,183 shares in 1972)	7,986,865	6,009,878
TOTAL STOCKHOLDERS' EQUITY	175,919,670	161,966,004
	$341,113,552	$279,591,362

The consolidated financial statements for 1972 have been restated as explained in Note A.

See summary of significant accounting policies and notes to consolidated financial statements.

Statement of Consolidated Earnings

The Stanley Works and Subsidiary Companies

Fiscal years ended December 30, 1973 and December 31, 1972

	1973	1972 (Note A)
Revenues		
Net sales (excluding net sales of Amerock Corporation, $57,481,033 in 1973 and $55,120,665 in 1972)	$434,158,038	$344,195,942
Other income	4,650,902	3,086,866
	438,808,940	347,282,808
Costs and Expenses (Notes I and J)		
Cost of products sold, excluding pension contributions and depreciation and amortization	311,198,129	243,087,241
Administrative and selling expenses	61,607,180	52,671,026
Provision for depreciation and amortization	12,981,347	10,655,474
Contributions to pension funds	6,345,581	4,345,853
Interest expense	5,587,869	2,895,867
Other deductions	3,888,962	3,444,316
	401,609,068	317,099,777
EARNINGS BEFORE INCOME TAXES AND EQUITY INTEREST IN EARNINGS OF AMEROCK CORPORATION	37,199,872	30,183,031
Provision for income taxes (Note K):		
Currently payable	16,316,509	12,934,935
Deferred	1,513,926	1,420,179
	17,830,435	14,355,114
EARNINGS BEFORE EQUITY INTEREST IN EARNINGS OF AMEROCK CORPORATION	19,369,437	15,827,917
Equity interest in earnings of Amerock Corporation, net of applicable income taxes of $3,399,700 in 1973 and $3,844,749 in 1972 (Note A)	3,420,823	4,116,556
NET EARNINGS	$ 22,790,260	$ 19,944,473
Earnings per share of Common Stock:		
Before equity interest in earnings of Amerock Corporation	$ 2.51	$ 2.04
Equity interest in earnings of Amerock Corporation	.44	.53
Net earnings	$ 2.95	$ 2.57

The consolidated financial statements for 1972 have been restated as explained in Note A.

See summary of significant accounting policies and notes to consolidated financial statements.

Statement of Consolidated Changes in Financial Position

The Stanley Works and Subsidiary Companies

Fiscal years ended December 30, 1973 and December 31, 1972

	1973	1972 (Note A)
Funds Provided		
Earnings before equity interest in earnings of Amerock Corporation	$ 19,369,437	$ 15,827,917
Equity interest in earnings of Amerock Corporation	3,420,823	4,116,556
Net earnings	22,790,260	19,944,473
Items reflected in operations which did not affect working capital:		
Provision for depreciation and amortization (including $1,568,676 in 1973 and $1,210,673 in 1972 related to Amerock Corporation)	14,550,023	11,866,147
Increase in deferred income taxes (including $244,700 in 1973 and $554,670 in 1972 related to Amerock Corporation)	1,758,626	1,974,849
Minority interest in earnings of subsidiaries	269,554	204,942
Equity in earnings of 50% owned companies	(557,932)	(222,069)
Funds provided from operations	38,810,531	33,768,342
Proceeds from long-term borrowing	25,565,909	16,979,318
Proceeds from sale of treasury stock	864,003	2,151,377
Increase in deferred gain on foreign exchange	2,008,357	
Total funds provided	67,248,800	52,899,037
Funds Used		
Additions to property, plant and equipment (including $2,877,434 in 1973 and $5,926,289 in 1972 related to Amerock Corporation)	29,257,313	22,678,290
Less net book value of disposals (including $167,897 in 1973 and $19,201 in 1972 related to Amerock Corporation)	297,877	669,374
	28,959,436	22,008,916
Current maturities and retirements of long-term debt	7,231,843	3,591,873
Cash dividends on Common Stock	6,939,739	6,163,435
Purchase of Common Stock for treasury	2,760,858	2,055,323
Businesses acquired, less net current assets:		
Property, plant and equipment	3,632,668	4,141,842
Goodwill	1,362,932	
Other assets	91,256	36,000
Minority interest	(127,165)	
Long-term debt assumed		(1,036,540)
Acquisition of minority interest in subsidiary	1,214,413	
Decrease in deferred gain on foreign exchange		58,073
Increase in other assets (including $4,625 in 1973 and $2,388 in 1972 related to Amerock Corporation)	77,829	320,014
Total funds used	52,143,809	37,338,936
INCREASE IN WORKING CAPITAL	$ 15,104,991	$ 15,560,101
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash	$ 516,867	$ 169,774
Short-term investments	(114,806)	(76,006)
Trade accounts receivable	18,009,307	12,866,266
Inventories	19,696,152	4,973,858
Prepaid expenses	56,006	526,371
Current assets of Amerock Corporation	3,047,791	1,146,764
Increase in current assets	41,211,317	19,607,027
Increase (decrease) in current liabilities:		
Notes payable to banks	10,376,292	(12,559,780)
Accounts payable	5,876,723	6,879,705
Accrued wages and expenses	2,834,076	1,873,270
Amounts due to trustees of pension funds	1,725,735	2,221,637
United States and foreign income taxes	1,113,660	342,192
Current maturities of long-term debt	3,467,075	1,219,392
Due to Amerock Corporation	(1,814,989)	2,004,831
Current liabilities of Amerock Corporation	2,527,754	2,065,679
Increase in current liabilities	26,106,326	4,046,926
INCREASE IN WORKING CAPITAL	$ 15,104,991	$ 15,560,101

The consolidated financial statements for 1972 have been restated as explained in Note A.

See summary of significant accounting policies and notes to consolidated financial statements.

Statement of Consolidated Stockholders' Equity

The Stanley Works and Subsidiary Companies

Fiscal years ended December 30, 1973 and December 31, 1972

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock	
	Shares	Amount			Shares	Amount
Balance January 2, 1972	7,742,390	$38,711,950	$ 862,018	$113,950,998	261,622	$5,436,054
Net earnings for the year ended December 31, 1972				19,944,473		
Dividends declared:						
Cash — $.80 per share				(6,163,435)		
Stock — 3%	226,467	1,132,335	9,426,689	(10,559,024)		
Purchase of treasury stock					47,134	2,055,323
Sale of treasury stock and related gain			669,878		(81,573)	(1,481,499)
Balance December 31, 1972	7,968,857	39,844,285	10,958,585	117,173,012	227,183	6,009,878
Net earnings for the year ended December 30, 1973				22,790,260		
Cash dividends declared — $.90 per share				(6,939,739)		
Purchase of treasury stock					74,984	2,760,858
Sale of treasury stock and related gain			80,132		(29,720)	(783,871)
Balance December 30, 1973	7,968,857	$39,844,285	$11,038,717	$133,023,533	272,447	$7,986,865

Cash dividends per share declared prior to the 3% stock dividend in 1972 have been restated for purposes of comparability with cash dividends subsequently declared.

See summary of significant accounting policies and notes to consolidated financial statements.

Significant Accounting Policies

The Stanley Works and Subsidiary Companies

December 30, 1973 and December 31, 1972

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all significant subsidiaries which are not held under temporary control. Upon consolidation all material intercompany accounts and transactions are eliminated.

The equity method of accounting is used for the Company's investment in Amerock Corporation, a wholly-owned subsidiary held under temporary control, and 50% owned companies.

Business Combinations

The net assets and results of operations of those businesses which are acquired in exchange for Stanley Common Stock and otherwise qualify as poolings of interest are included in the consolidated financial statements as if they had always been subsidiaries. Accordingly, consolidated financial statements for the prior years are restated.

The net assets of those businesses acquired which are accounted for as purchases are recorded at their fair value at the date of acquisition and the consolidated financial statements include their operations only from that date. Any excess of acquisition cost over the fair value is included in the consolidated balance sheet as goodwill. Goodwill with a cost of $3,026,337 which relates to businesses acquired prior to October 31, 1970 is not being amortized because in the opinion of management no decline in value has occurred. The excess which relates to businesses acquired subsequent to October 31, 1970 is being amortized on a straight-line basis generally over a fifteen year period.

Translation of Foreign Currencies

Current assets and current liabilities of foreign subsidiaries are translated into U.S. dollars at the rates of exchange in effect at the close of the period. All other assets and liabilities are translated at historical rates of exchange. Revenue and expense accounts are translated at a weighted average of exchange rates which were in effect during the year, except for depreciation and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired. Unrealized gains are credited to Deferred Gain on Foreign Exchange. Unrealized losses are charged to Deferred Gain on Foreign Exchange to the extent available and then are charged to income.

Inventories

Inventories of the parent company (The Stanley Works) and all of its divisions are priced at cost on the last-in, first-out method, which is not in excess of market. The remaining inventories are generally priced at the lower of first-in, first-out cost or market.

Properties, Equipment and Related Depreciation

Property, plant and equipment are stated at cost. Major improvements and betterments to existing plant and equipment are capitalized. Expenditures for maintenance and repairs which do not extend the life of the applicable assets are charged to expense as incurred.

Depreciation is provided using a combination of accelerated and straight-line methods based upon the estimated useful lives of the assets.

Research and Development Costs

Research and development costs are charged to expense as incurred.

Pension Plans

It is the policy of the Company and its subsidiaries to fund pension costs accrued under several pension plans covering substantially all employees, and to amortize unfunded prior service costs generally over 30 years, except that unfunded prior service costs were generally amortized over 40 years in 1972.

Income Taxes

The provision for income taxes is based upon elements of income and expense as reported for financial statement purposes. Deferred income taxes result primarily from the depreciation of fixed assets on accelerated methods and over shorter lives permitted for income tax purposes.

The investment tax credit is accounted for on the flow-through method as a reduction of the provision for United States income taxes in the year in which the credits are available for tax purposes.

Since it has been the practice and is the intention of the Company to continue to reinvest the unremitted earnings of foreign subsidiaries in the growth of the business outside the United States, with the exception of the foreign subsidiary of Amerock Corporation, United States income taxes have generally not been provided on the unremitted earnings of foreign subsidiaries.

Earnings per Share

Net earnings per share are based on the weighted average number of shares of Common Stock outstanding during each year after giving retroactive effect to shares issued in poolings of interest, stock splits and stock dividends. The exercise of outstanding stock options and subscriptions would not result in a material dilution of earnings per share.

Notes to Consolidated Financial Statements

The Stanley Works and Subsidiary Companies

December 30, 1973 and December 31, 1972

NOTE A — DIVESTITURE OF AMEROCK CORPORATION AND RESTATEMENT OF FINANCIAL STATEMENTS

In June 1973, the United States Supreme Court declined to review a decision of the United States Court of Appeals which upheld the Federal Trade Commission order requiring the divestiture by the Company of Amerock Corporation. The Federal Trade Commission requires that the Company divest of Amerock Corporation by June 1975 and prohibits the Company for a period of ten years from acquiring any part of the stock or assets of any firm engaged in the manufacture or sale of cabinet hardware without prior approval of the Federal Trade Commission. The financial effects of the divestiture cannot now be determined because the method and terms of divestiture are as yet unknown.

Since control of Amerock Corporation is temporary, the accounts and operations of Amerock Corporation have been eliminated from the related consolidated totals and restated as indicated under "Restatement of Financial Statements" on page 14 of this report.

The Company's investment in Amerock Corporation ($30,240,665 at December 30, 1973 and $28,819,842 at December 31, 1972) was equal to its equity in the underlying net assets. Cash dividends paid by Amerock amounted to $2,000,000 in 1973 and $3,610,000 in 1972. Charges to Amerock Corporation for corporate services furnished by The Stanley Works amounted to $193,304 in 1973 and $111,399 in 1972 after applicable income taxes.

NOTE B — BUSINESS COMBINATIONS

Information regarding business combinations in 1973 is presented under "Acquisitions" on page 14 of this report.

During the year ended December 31, 1972, the following business combinations were consummated and accounted for as poolings of interest.

In April 1972, the Company acquired all of the outstanding stock of Ackley Manufacturing Company, a manufacturer of hydraulic tools, in exchange for 92,560 shares of Stanley Common Stock.

In May 1972, the Company acquired all of the outstanding stock of Prestressed Concrete Products, Inc., of New Mexico, a producer of precast and prestressed concrete products, in exchange for 12,300 shares of Stanley Common Stock.

In September 1972, the Company acquired the net assets of Jed Products Company, a distributor of automatic door equipment, in exchange for 65,000 shares of Stanley Common Stock.

In December 1972, in a transaction accounted for as a purchase, the Company acquired Wilson Holdings Ltd., a Canadian producer of precast and prestressed concrete products.

Assuming the companies acquired in purchase transactions had been acquired at the beginning of the respective years, the consolidated results of operations would not have changed significantly.

Net sales and net earnings of companies acquired in poolings of interest transactions for the period preceding the combinations which are included in financial results for 1972 were immaterial.

NOTE C — INTERNATIONAL OPERATIONS

The assets and liabilities of subsidiaries located outside the United States amounted to $123,441,946 and $58,188,887, respectively at December 30, 1973 and $92,639,582 and $42,224,988, respectively at December 31, 1972. Net sales and net earnings of such subsidiaries amounted to $138,505,918 and $9,996,706, respectively for the year ended December 30, 1973 and $98,233,105 and $6,813,342, respectively for the year ended December 31, 1972.

In 1973 unrealized foreign exchange gains of $2,008,357 were credited to Deferred Gain on Foreign Exchange. In 1972 unrealized foreign exchange losses of $58,073 were charged to Deferred Gain on Foreign Exchange.

Translated at the rates of exchange in effect at the end of fiscal 1973 long-term debt would increase by $1,370,355.

NOTE D — INVENTORIES

The classification of inventories at the end of each year was as follows:

	1973	1972
Finished products	$29,650,739	$24,475,643
Work in process	22,903,909	18,847,008
Raw materials	27,626,241	18,052,089
Supplies	2,454,268	1,564,265
	$82,635,157	$62,939,005

Inventories in the amount of $51,108,134 at the end of 1973 and $38,054,179 at the end of 1972 are priced at the lower of first-in, first-out cost or market. The remaining inventories are priced at cost on the last-in, first-out method, which was not in excess of market.

If the first-in, first-out method of inventory valuation had been used by the Company for those inventories priced on the last-in, first-out method, inventories would have been $36,325,955 and $32,876,344 higher than reported at the end of 1973 and the end of 1972, respectively.

NOTE E — LONG-TERM DEBT

The composition of long-term debt at the end of each year was as follows:

	1973	1972
Notes payable in annual installments of $1,000,000 to 1990, with interest at 4⅞%	$17,000,000	$18,000,000
Notes payable under revolving credit agreements	20,000,000	
Notes payable to foreign banks with interest at ¾% above the Eurodollar interbank rate payable $1,200,000 in 1974 and $3,916,679 in 1975	5,116,679	7,215,315
Note payable to bank in 1977 with interest currently at prime rate	5,000,000	5,000,000
Note payable to bank in 1977 with interest currently at 6%	5,000,000	5,000,000
Notes payable to foreign banks with interest at 1¼% to 1½% above prime rate repayable $1,062,000 in 1975, $3,136,500 in 1976 and $1,466,000 in 1977	5,664,500	3,900,000
Note payable to bank in 1974 with interest at prime rate	2,500,000	2,400,000
Note payable with interest at 8¾% repayable $309,400 in 1974, $321,300 in 1975 and $321,300 in 1976	952,000	
Mortgage notes payable with interest at rates between 6% and 7%	1,007,760	1,484,412
Capitalized lease obligations:		
Due in annual installments of $200,000 from 1986 to 1991 and $400,000 in 1992 and 1993 with interest at 6⅜%	2,000,000	
Other payable in varying installments to 1980	733,437	826,207
Other	2,561,580	1,908,881
	67,535,956	45,734,815
Less current maturities	6,209,723	2,742,648
	$61,326,233	$42,992,167

The revolving credit agreements provide for the issuance to the Company of revolving loans up to a maximum of $20,000,000 until December 1976, with interest at 117% of the current prime rate. The agreements provide that the outstanding revolving loans in December 1976 may be converted to a term loan payable in quarterly installments to December 1980. As long as the Company is in compliance with the provisions of the agreement the commitment cannot be withdrawn. Borrowings under the agreement to date have been classified as long-term debt because the Company intends to convert its borrowings into term notes payable.

Among other provisions, the agreements relating to the long-term debt contain covenants relating to the maintenance of working capital and stockholders' equity, and restrictions relating to payment or declaration of dividends and acquisitions of the Company's Common Stock. The amount of retained earnings not restricted under the most limiting of these provisions was approximately $23,500,000 at December 30, 1973.

NOTE F — COMMON STOCK

The Company has authority under its certificate of incorporation to acquire not more than 10% of the outstanding Common Stock for resale to employees.

At December 30, 1973 the Company had reserved 374,920 shares of Common Stock for issuance upon the exercise of stock options (382,851 at December 31, 1972) including 203,317 shares which are available for future option grants (246,567 shares at December 31, 1972). In addition there were 297,221 shares of Common Stock reserved for issuance under the Employee Stock Purchase Plan at December 30, 1973 (320,838 at December 31, 1972). The shares to be issued may be treasury shares or unissued shares, or a combination thereof.

NOTE G — STOCK OPTION AND STOCK PURCHASE PLANS

The Company has in effect a Stock Option Plan under the terms of which options for the purchase of Common Stock are granted to officers and key employees at 100% of the market price of the Common Stock at the date of grant. During 1973 options for the purchase of 43,250 shares (42,834 shares in 1972) were granted and options for 7,931 shares were exercised at prices ranging from $16.63 to $25.36 per share (42,987 in 1972 at prices ranging from $16.88 to $40.75 per share). The shares were issued from treasury stock. At December 30, 1973 options were outstanding for the purchase of 171,603 shares at prices ranging from $22.57 to $39.56 per share. At December 31, 1972 options were outstanding for the purchase of 136,284 shares at prices ranging from $16.63 to $39.56 per share. All outstanding options were exercisable.

The Company also has in effect an Employee Stock Purchase Plan adopted in 1967, under the terms of which a maximum of 515,000 shares of Common Stock may be offered for subscription over a ten year

period. Substantially all employees are eligible for this Plan. During 1973 21,789 shares were issued under this Plan from treasury stock (38,571 during 1972). At December 30, 1973 subscriptions were outstanding for 24,158 shares of Common Stock (22,981 at December 31, 1972).

NOTE H — LEASES

Total rental expense for the years ended December 30, 1973 and December 31, 1972 was immaterial. In addition, the present value of noncapitalized financing leases at December 30, 1973 and December 31, 1972 and the impact on net earnings for those years if such noncapitalized financing leases had been capitalized were also immaterial.

NOTE I — DEPRECIATION EXPENSE

The provisions for depreciation (excluding Amerock Corporation) for the year ended December 30, 1973 amounted to $11,997,974 and for the year ended December 31, 1972 amounted to $10,195,245. Of these amounts, approximately 60% was provided on assets depreciated on accelerated methods and the balances were provided on assets depreciated on the straight-line method.

NOTE J — PENSION PLANS

The actuarially computed value of vested benefits as of the most recent valuation date exceeded the total of the pension funds and balance sheet accruals by approximately $22,800,000.

Changes to the pension plans during 1973, consisting of amendments to the plans and a change in the period of amortization of prior service costs, had no material effect on net earnings.

NOTE K — INCOME TAXES

Investment tax credits (excluding Amerock Corporation) amounted to $603,000 for the year ended December 30, 1973 and $483,000 for the year ended December 31, 1972.

The amounts of undistributed foreign earnings, before available tax credits and deductions, which are considered to be indefinitely reinvested were approximately $52,200,000 at December 30, 1973 and $40,400,000 at December 31, 1972.

NOTE L — ACCOUNTING CHANGES

One of the Company's subsidiaries has been investing increasing amounts in tooling for primarily proprietary lines of hardware. The subsidiary has had the policy of expensing the costs of this tooling in the year acquired. Because these expenditures were becoming substantial, and since the tooling will benefit future periods, the subsidiary adopted the policy of capitalizing expenditures for this type of tooling, and depreciating them on a straight-line basis over three years. As a result of this change in accounting method, net earnings for 1972 were increased by approximately $213,000 ($.03 per share).

Commencing in 1972 the Company adopted the equity method of accounting for investments in 50% owned companies. As a result of this change, net earnings were increased by $222,069 ($.03 per share) in 1972.

Commencing in 1972 the Company adopted the practice of consolidating the accounts and operations of certain foreign subsidiaries which were previously carried on the equity method of accounting. There was no effect on net earnings as a result of this change.

Report of Independent Accountants

ERNST & ERNST

INDUSTRIAL BANK BUILDING

PROVIDENCE, R. I. 02903

To the Stockholders
The Stanley Works
New Britain, Connecticut

We have examined the consolidated financial statements of The Stanley Works and subsidiary companies for the years ended December 30, 1973 and December 31, 1972. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Amerock Corporation and subsidiary for the years ended December 30, 1973 and December 31, 1972. We also did not examine the financial statements of a foreign subsidiary for the year ended December 31, 1972. These statements, which reflect total assets at December 30, 1973 and December 31, 1972, constituting 12% and 15%, respectively, of consolidated assets and which reflect net earnings for the years ended December 30, 1973 and December 31, 1972 constituting 15% and 22%, respectively, of consolidated net earnings, were examined by other independent accountants whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely upon the reports of the other independent accountants.

In our opinion, based upon our examinations and the reports of other independent accountants, subject to the effect of the divestiture of Amerock Corporation and subsidiary referred to in Note A to the consolidated financial statements, the accompanying consolidated balance sheets and consolidated statements of earnings, stockholders' equity and changes in financial position present fairly the consolidated financial position of The Stanley Works and subsidiary companies at December 30, 1973 and December 31, 1972, and the consolidated results of their operations, changes in stockholders' equity and changes in financial position for the two fiscal years then ended, in conformity with generally accepted accounting principles, consistently applied during the period subsequent to the change, with which we concur, made as of January 3, 1972, in the method of accounting for tooling expenditures as described in Note L to the consolidated financial statements.

Ernst & Ernst

Providence, Rhode Island
February 18, 1974

The Stanley Works

Executive Offices, New Britain, Connecticut

UNITED STATES

STANLEY AIR TOOLS DIVISION
Cleveland, Ohio

STANLEY DOOR OPERATING EQUIPMENT DIVISION
Farmington, Connecticut

STANLEY DOOR SYSTEMS DIVISION
Birmingham, Michigan

STANLEY DRAPERY HARDWARE DIVISION
Wallingford, Connecticut

STANLEY HARDWARE DIVISION
New Britain, Connecticut

STANLEY HYDRAULIC TOOLS DIVISION
Clackamas, Oregon

STANLEY INDUSTRIAL COMPONENTS DIVISION
Forestville, Connecticut

STANLEY INDUSTRIAL HARDWARE DIVISION
New Britain, Connecticut

STANLEY POWER TOOLS DIVISION
New Bern, North Carolina

STANLEY STEEL DIVISION
New Britain, Connecticut

STANLEY STRAPPING SYSTEMS DIVISION
New Britain, Connecticut

STANLEY TOOLS DIVISION
New Britain, Connecticut

STANLEY-VIDMAR DIVISION
Allentown, Pennsylvania

THE STANLEY WORKS OF PUERTO RICO, INC.
Dorado, Puerto Rico

AMEROCK CORPORATION
Rockford, Illinois

JED PRODUCTS, INC.
Madison Heights, Michigan

PRESTRESSED CONCRETE OF COLORADO, INC.
Denver, Colorado

VOLKERT STAMPINGS, INC.
Queens Village, New York

INTERNATIONAL-STANLEY CORPORATION
Omaha, Nebraska

CANADA

THE STANLEY WORKS OF CANADA, LTD.
Hamilton, Ontario

STANLEY-BUMEDA LIMITED
Montreal, Quebec

STANLEY DOOR SYSTEMS LIMITED
Malton, Ontario

STANLEY STEEL COMPANY LIMITED
Hamilton, Ontario

STANLEY STRUCTURES LIMITED
Belleville and Brampton, Ontario

STANLEY-TAYMOUTH LIMITED
Toronto, Ontario

AMEROCK LTD.
Meaford, Ontario

INTERNATIONAL

STANLEY-ANTICHOC S.A.
St.-Louis, France

STANLEY-BRIDGES, LTD.
Cramlington, England

STANLEY-MABO S.A.
Besancon, France

STANLEY PACKSYSTEM G.m.b.H.
Gelsenkirchen-Buer, Germany

STANLEY TOOLS LTD.
Sheffield, England

STANLEY WERKZEUG G.m.b.H.
Wuppertal-Barmen, Germany

STANLEY WORKS G.m.b.H.
Velbert, Germany

STANLEY WORKS (Italia) S.R.L.
Figino Serenza, Italy

THE STANLEY WORKS PTY. LTD.
Melbourne, Australia

COLLINS COLOMBIANA S.A.
Palmira, Colombia

FERRAMENTAS STANLEY S.A.
Sao Paulo, Brazil

HERRAMIENTAS COLLINS S.A.
Amatitlan, Guatemala

HERRAMIENTAS UNIVERSALES S.A.
de C.V., Puebla, Mexico

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GERALD A. LAMB**, *Senior Vice President, The Connecticut Bank and Trust Company, Hartford, Connecticut*

*Member of the Executive Committee
**Elected at the November, 1973 Board of Directors Meeting

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GARTH W. EDWARDS, *Vice President — Finance*

JOSEPH H. MYERS, *Group Vice President Industrial Divisions*

HOYT C. PEASE, *Vice President — Manufacturing*

ROBERT H. THESING, *Group Vice President International*

VAUGHN E. WEST, *Vice President Administration and Planning*

NORRIS A. ALDEEN, *Vice President Chairman, Amerock Corporation*

HERBERT E. BURGESS, *Vice President General Manager, Stanley Door Systems Division*

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RICHARD C. HASTINGS, JR., *Vice President President, Stanley Tools Division*

BENNETT LORD, *Vice President General Manager, Stanley Strapping Systems Division*

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ROBERT A. MACFARLANE, *Secretary and General Counsel*

JOHN C. PRITCHARD, *Treasurer*

LLOYD WALLIS, JR., *Controller*

New Corporate Laboratory of The Stanley Works

This new laboratory facility, officially opened January 10, 1974, signifies the Company's recognition of the importance of research and technology as vital elements in growth, profitability and corporate responsibility. The 24,000 sq. ft. laboratory reaffirms Stanley's faith in the future and gives credence to the fact that Stanley is making maximum effort to help people do things right.

STANLEY®
helps you do things right

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